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Message Text

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61
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DRAFTED BY EA/J:RDANKERT:BCL
APPROVED BY T - MR. DONALDSON:BCL
EA/J - MR. LEVIN
EA - MR. SNEIDER (DRAFT)
EB - MR. MAU
EUR/RPE - J. TARRANT
---------- 104363
P R 272139Z DEC 73
FM SECSTATE WASHDC
TO AMEMBASSY TOKYO PRIORITY
INFO ALL OECD CAPITALS
/AMEMBASSY ABU DHABI
AMEMBASSY TEHRAN
USMISSION EC BRUSSELS
AMEMBASSY JAKARTA
USMISSION NATO
AMEMBASSY CARACAS
USINT ALGIERS
AMEMBASSY TRIPOLI
USINT BAGHDAD
AMEMBASSY KUWAIT
AMEMBASSY JIDDA
AMEMBASSY LAGOS

C O N F I D E N T I A L STATE 250896

LIMDIS - KUWAIT ALSO PASS DOHA

E.O. 11652: GDS
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SUBJECT: JAPANESE INQUIRY ON ENERGY ACTION GROUP (EAG)

1. JAPANESE AMBASSADOR YASUKAWA CALLED ON UNDERSECRETARY DONALDSON DECEMBER 20 TO INQUIRE ABOUT CURRENT US THINKING

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ON THE EAG. YASUKAWA STATED HIS GOVERNMENT WAS GIVING VERY SERIOUS AND CAREFUL STUDY TO THE EAG PROPOSAL AND ANY INFORMATION WOULD ASSIST IN FURTHERING THIS STUDY. DONALDSON REVIEWED BACKGROUND OF EAG PROPOSAL, EMPHASIZING TWO MAIN FACTORS BEYOND THE SHORT TERM CRISIS WITH WHICH IT IS DESIGNED TO DEAL: A) ONGOING PROBLEMS IN INDUCING SUFFICIENT PRODUCTION BEYOND SEPTEMBER 73 LEVELS; B) THE DRAMATIC SHIFT IN THE PRICING MECHANISM WHEREBY PRODUCERS ARE SIMPLY DICTATING PRICE LEVELS RATHER THAN NEGOTIATING WITH INTERNATIONAL OIL COMPANIES. (NOTE: DISCUSSION TOOK PLACE PRIOR TO OPEC MEETING IN TEHRAN). SECRETARY'S VIEW IS THAT WE NEED TO MOVE ON THESE PROBLEMS IN A DIRECT AND RAPID MANNER.

2. DONALDSON CONTINUED THAT THE USG FAVORS AN OVERALL APPROACH LINKING EUROPE, NORTH AMERICA, AND JAPAN AND THE PRODUCING COUNTRIES AT A HIGH-LEVEL. THE AIM IS TO PROVIDE AN ACTION PROGRAM IN NO LONGER THAN THREE MONTHS WHICH COULD BE SUBMITTED IN BROADER FORUM FOR ACCEPTANCE BY GOVERNMENTS.

3. WE ENVISAGE THREE MAIN PURPOSES: FIRST, TO GET ALL CONSUMER COUNTRIES ON THE SAME WAVE LENGTH IN ATTACKING CONSUMPTION PROBLEMS. AT PRESENT EACH IS MOVING AT A DIFFERENT PACE, WHEREAS WE BELIEVE ALL NEED TO BE ALERTED TO THE DIMENSIONS OF THE PROBLEM AND ALL CAN GAIN FROM EXCHANGING THEIR RESPECTIVE EXPERIENCES IN CONSUMPTION REDUCING MEASURES. SECONDLY, THE EAG SHOULD IMPRESS ON ALL THE URGENCY OF ACHIEVING AN OVERALL PLAN FOR OIL CONSUMERS, INCLUDING THE AREAS OF SHARING OIL AND TECHNOLOGY. ALL FORCES SHOULD BE CONCERTED AND REDUNDANCY ELIMINATED IN DEVELOPMENT OF ALTERNATIVE SOURCES, INCLUDING NUCLEAR POWER, SHALE OIL, AND COAL GASIFICATION. THE THIRD POINT, WHICH IS MOST IMPORTANT AND MOST DIFFICULT TO ACHIEVE, IS THE ATTEMPT TO BRING PRODUCERS AND CONSUMERS TOGETHER TO CREATE A SYSTEM WHICH WOULD INDUCE THE PRODUCERS TO PROVIDE MORE THAN THEY WOULD NORMALLY WANT TO IN CONFIDENTIAL

THE SHORT HAUL.

4. DONALDSON CONTINUED THAT IN FIVE YEARS WE COULD EXPECT MORE ALTERNATIVE ENERGY SOURCES TO COME ON STREAM, BUT WE NEED THE ARAB OIL PRODUCERS TO HELP US THROUGH THIS TIGHT PERIOD. CONSUMERS MIGHT OFFER LONG TERM CONTRACTS OR COMMITMENTS, PERHAPS OVER 15 YEARS, IN WHICH MORE OIL WOULD BE PRODUCED IN THE FIRST FIVE AND LESS IN THE NEXT 10 YEARS AT PRICES WHICH WOULD BE ATTRACTIVE TO PRODUCERS IN THE END PERIOD BUT WHICH WOULD BE LESS THAN TODAY'S HIGH PRICES DURING THE BEGINNING FIVE YEARS. WE MIGHT SIMULTANEOUSLY HELP THE PRODUCERS TO INVEST THEIR EARNINGS WITH A MINIMUM GUARANTEED RETURN THROUGH A

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DEVELOPMENT BANK WHICH WOULD INVEST IN THE PRODUCING COUNTRIES AND IN OTHER AREAS WHERE THE BEST RETURNS COULD BE OBTAINED. THE SPONSORS WOULD GUARANTEE A CERTA*N MINIMUM RETURN INCLUDING AN INFLATIONARY HEDGE.

5. DONALDSON EMPHASIZED THAT THE SECRETARY'S IDEA OF INDUCING INCREASED PRODUCTION WAS NOT BASED ON BLOC-TO-BLOC NEGOTIATIONS WITH THE PRODUCERS BUT ON A JOINT APPROACH TO WHAT WE THINK IS A JOINT PROBLEM. AT PR SENT REDUCED OIL PRODUCTION LEVELS, THERE IS A CHA CE OF

WORLDWIDE RECESSION*AND EVENTUALLY DEPRESSION WHICH MUST BE OF CONCERN TO OPE* EVEN IF THEY CAN GET $17-18/ BARREL TODAY. THE EAG WOULD PROVIDE THE OPPORTUNITY FOR OPEC COUNTRIES TO TELL US WHAT THEY NEED IN A FORUM WHERE A SOLUTION COULD BE WORKED OUT.

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6. DONAL*SON SAID THE US HAD PURPOSELY NOT BEEN MORE SPECIFIC ON THE EAG BECAUSE IT DESIRED THE IDEAS OF OTHER POTENTIAL PARTICIPANTS. WE ARE VERY OPEN TO OTHER IDEAS,

BUT DESIRE THE EAG TO BE A VERY * GH LE*E* GROUP, FOR INSTANCE, AT NOT LESS THAN A FOREIGN MINISTER LEVEL. WHILE THIS IS NOT A SPECIFIC RECOMMENDATION, IF AN EAG? CONFERENCE WERE TO BE HELD, WE MIGHT EXPECT THE SECRETARY OF STATE TO ATTEND ACCOMPANIED BY THE MOST SENIOR OIL POLICY MEN IN GOVERNMENT.

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7. IN DISCUSSION ON EUROPEAN REACTION TO EAG PROPOSAL, DONALDSON INDICATED WE HAD HOPED THE EC NINE WOULD DESIGNATE A SINGLE SENIOR REPRESENTATIVE. YASUKAWA NOTED THAT EC COPENHAGEN SUMMIT DECLARATION ON OIL HAD REFERRED TO CONTINUED CONSULTATIONS WITHIN THE OECD FRAME-WORK. DONALDSON RESPONDED THAT IT WAS HIS IMPRESSION THAT THIS FORMAL DECLARATION MIGHT NOT REPRESENT THE FINAL VIEWS OF MEMBER GOVERNMENTS. YASUKAWA AGREED, NOTING THE BRITISH HAD MADE POSITIVE NOISES ABOUT THE CONCEPT OF AN EAG AND DONALDSON STATED THAT DUTCH WERE ALSO VERY POSITIVE DURING HIS RECENT TRIP. DONALDSON CONTINUED THAT IN ANY EVENT THE EC TIMETABLE PROVIDING FOR EC DECISIONS ON THIS ISSUE IN FEBRUARY FOLLOWED BY DISCUSSIONS WITHIN THE OECD WOULD NOT PRODUCE RESULTS FAST ENOUGH. WE ARE VERY INTERESTED IN THE REACTION OF THE JAPANESE GOVERNMENT TO IDEA OF EAG. A FAVORABLE INITIAL DISPOSITION WOULD BE EXTREMELY HELPFUL TO US.

8. REGARDING MODALITIES FOR THE EAG, DONALDSON INDICATED THAT WHILE THE GOVERNMENTS WOULD SIT IN THE GROUP, THEY WOULD BE CLOSELY BACKED BY INPUT FROM OTHER PUBLIC AND PRIVATE CIRCLES. FOR EXAMPLE, ON THE FINANCIAL SIDE, WE

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MIGHT SET UP A TASK FORCE OR WORKING GROUP WITH GOVERN-
MENTAL AND PRIVATE RESOURCES INCLUDING INTERNATIONAL
FINANCIAL ORGANIZATIONS TO REPORT BACK WITHIN A THREE
MONTH PERIOD WITH RECOMMENDATIONS FOR AN OVERALL INVEST-
MENT SCHEME.

9. DONALDSON INDICATED WE HOPED THE EAG WOULD BE ABLE
TO PREPARE A PLAN WHICH WOULD BE SUBMITTED TO THE OECD
OR SOME LARGER WORLD GROUP FOR "RATIFICATION" OF SOME
TYPE. THE ORIGINAL PLANNING GROUP SHOULD BE SMALL AND
ABLE TO ACT QUICKLY AND NATURALLY COULD NOT COMMIT THE
GOVERNMENTS. THE COMMITMENT OR RATIFICATION WOULD TAKE
PLACE IN A BROADER FORUM.

10. YASUKAWA EMPHASIZED THAT SINCE HE RECOGNIZED THE US
DOES NOT WANT TO CONFRONT THE PRODUCING COUNTRIES, AND
HIS GOVERNMENT HAD VERY STRONG VIEWS ON AVOIDING CON-
FRONTATION, HE WAS VERY INTERESTED IN THE REACTIONS OF THE
PRODUCING COUNTRIES. DONALDSON RESPONDED THAT HE WAS
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AWARE ONLY IN PART OF RECENT DISCUSSIONS BY THE SECRETARY
BUT IT WAS SAFE TO SAY WE HAD GOTTEN SOME FAVORABLE
RESPONSES. THE SECRETARY HAD PRESENTED THE EAG CONCEPT AS
A FORUM FOR EVERYONE'S LONG TERM PROBLEM. THE PRO-
DUCERS SHOULD SHARE IN THE RESOLUTION OF THIS PROBLEM AND
IN ANY EVENT EVERYONE'S COOPERATION WOULD BE NEEDED
EFFECTIVELY USE THE REVENUES WHICH ARE ANTICIPATED BY THE
PRODUCING COUNTRIES. DONALDSON NOTED THAT MANY COUNTRIES
HAVE COME TO THE CONCLUSION, JUSTIFIED BY THEIR EXPERIENCE,
THAT OIL IN THE GROUND IS WORTH MORE THAN DEPRECIATING
CURRENCY RESERVES. OUR VIEW IS THAT THIS SITUATION WILL
NOT PREVAIL IN THE LONG HAUL AND WE THINK WE CAN CONVINCE
THE PRODUCERS OF THE MUTUAL BENEFITS FLOWING FROM
INCREASED OIL PRODUCTION. YASUKAWA SAID HE MIGHT AWAIT THE
SECRETARY'S RETURN BEFORE PROVIDING HIS ASSESSMENT TO
TOKYO SINCE HIS GOVERNMENT WAS MOST INTERESTED IN THE
ARAB ATTITUDE.

11. IN CONCLUSION, DONALDSON INQUIRED REGARDING DEVELOP-
MENTS IN JAPAN'S CONSERVATION PROGRAM. YASUKAWA NOTED
THAT JAPANESE CONSUMPTION IS THE INVERSE OF THE US IN
TERMS OF THE RATIO OF PERSONAL VERSUS INDUSTRIAL ENERGY
USE. THEREFORE, WHILE THE US CAN MEET THE SHORTFALL
THROUGH SACRIFICE IN PERSONAL CONSUMPTION, THE GOJ WILL
HAVE TO CUT OIL CONSUMPTION BY INDUSTRY. YASUKAWA FELT
THE MOST PROBABLE ARRANGEMENT FOR LIMITING INDUSTRIAL
CONSUMPTION WOULD BE ALLOCATION BY INDUSTRIAL SECTOR. KISSINGER

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